



# Commonwealth of Massachusetts OPEB Commission Meeting

April 5, 2012



# GASB 43/45

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- Accounting standard for retiree benefit plans
- Place economic value on promise of future coverage
- Benefits as deferred compensation

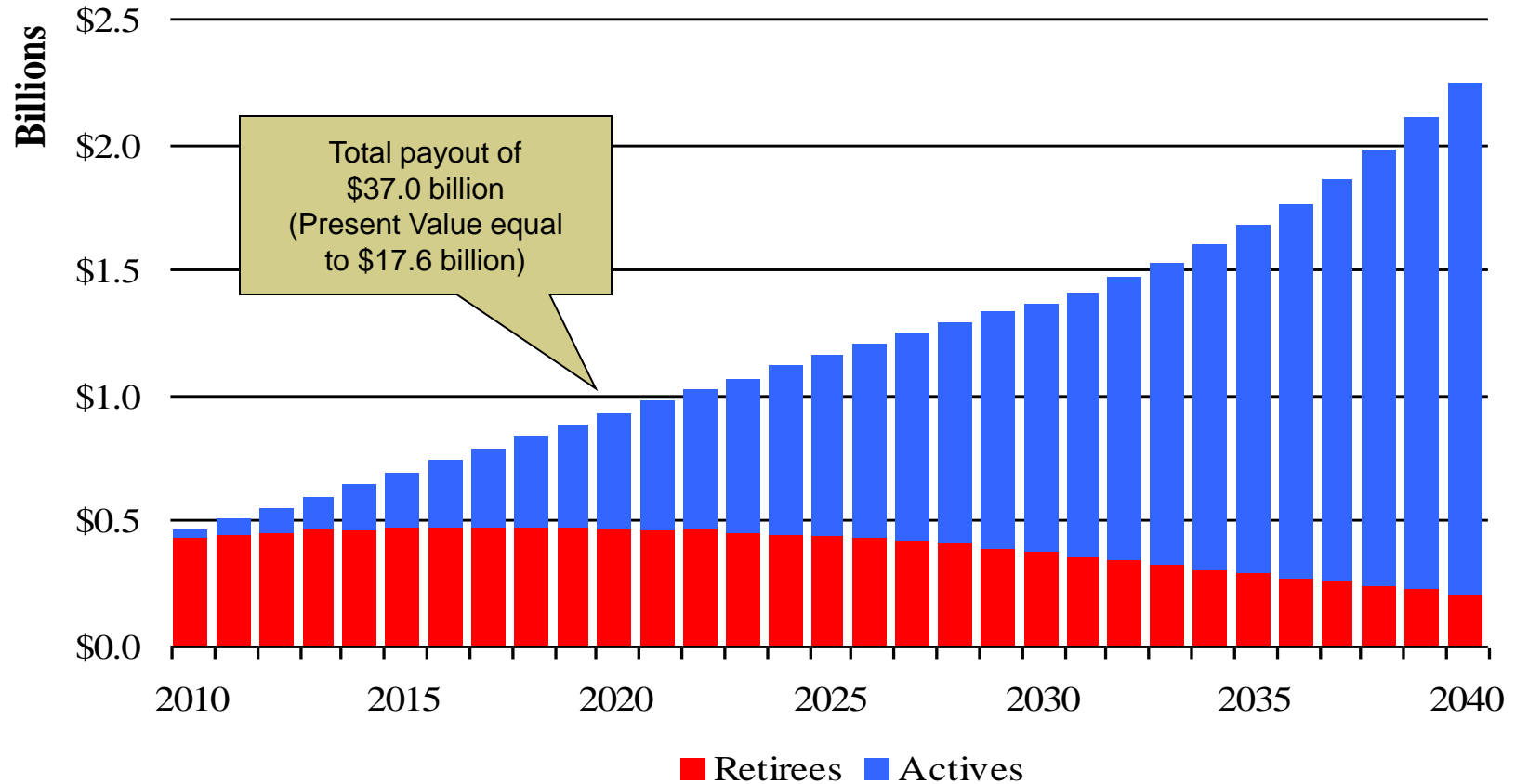
# Measuring the Future

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- Annual cost of retiree health care as of 1/1/2011
  - \$10,147 for those under age 65
  - \$4,712 for those over age 65 (and eligible for Medicare)
- Based on many inputs and assumptions
  - Healthcare inflation
  - Longevity
  - Family coverage
  - Retirement age
  - Discount rate
- Value of medical cost (individual basis): \$118,000
  - Age 62 retiree (2011 start)
  - Single male with Indemnity coverage
  - Eligible for Medicare upon turning age 65

# Projected Future Payments

## Projection of Benefit Payments (Open Group)



## Key Actuarial Results (in millions)

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	Actuarial Accrued Liability (AAL)	Normal Cost (NC)
Active	\$8,484.9	\$631.0
Retired	\$8,082.7	0.0
<b>Total</b>	<b>\$16,568.6</b>	<b>\$631.0</b>

- AAL: Value of Benefits “earned” to date
- NC: Value of Benefits being earned in current year

## Annual Cost: Cash vs. Accounting

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▪ Was: Cash only	\$ 397.0 (millions)
– No recognition of value of promise	
▪ Is: Accrual Accounting	
– Increase in value (NC)	\$659.4
– Phase-in past accruals	<u>\$636.5</u>
Total	\$1,295.9

## Membership Classes

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	Group 1	Group 2	Group 3	Group 4
Percent Active	82%	6%	2%	10%
Percent of Normal Cost	80%	6%	3%	11%
Average Normal Cost (NC)	\$7,659	\$9,071	\$10,865	\$13,704
Normal Cost / Avg. Salary	15%	18%	16%	24%

# Plan Design as Cost Lever

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- Key cost drivers
  - Benefit Plan
    - Underlying cost of care
    - Eligibility to receive benefit
    - Cost sharing approach
  - Financial
    - Fund and invest to achieve higher returns
    - Employee contributions
    - Retiree share



# Philosophy on Benefits

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- Balance between service and reward
  - 16.6% of pay currently (as deferred compensation)
- Fit in overall compensation structure
- Ability to afford